

Message Text

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FM AMEMBASSY PARIS
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USMTN: PARIS PASS OECD

USEEC

PASS TREASURY, FEDERAL RESERVE, COMMERCE, LABOR

E.O. 11652: N/A
TAGS: EALR, EFIN, EGEN, FR
SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS
REF: PARIS 19803

1. SUMMARY:
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SIGNS POINT TO A SLIGHT REVIVAL IN INDUSTRIAL
PRODUCTION IN JUNE, SPURRED BY THE SEASONAL UPSWING
IN DEMAND PRECEDING THE VACATION PERIOD. HOWEVER
THE INCREASE IN ACTIVITY WAS NOT AS LARGE THIS YEAR
AS NORMAL. OTHER NEWS, PARTICULARLY THE TRADE
DEFICIT AND UNEMPLOYMENT, HAS BEEN ALMOST UNIFORMLY
BAD FOR THE GOF, BUT THERE IS SOME INDICATION THAT

PART OF THIS, NOTABLY FOREIGN TRADE, IS OF A TEMPORARY NATURE WITH THE DEFINITE POSSIBILITY OF BETTER RESULTS FOR JULY. END SUMMARY

2. INDUSTRIAL ACTIVITY STRENGTHENED IN JUNE BUT NOT AS MUCH AS USUAL.

ACCORDING TO THE LATEST BANK OF FRANCE SURVEY, INDUSTRIAL ACTIVITY PICKED UP IN JUNE, BUT THE TRADITIONAL BIG PUSH WHICH PRECEDES THE VACATION PERIOD WAS WEAKER THAN NORMAL. THE INCREASE IN ACTIVITY WAS STRONGEST IN THE INTERMEDIATE GOODS SECTOR. THE SURVEY UNDERLINED THAT FOREIGN DEMAND WAS STRONGER THAN DOMESTIC DEMAND, PARTICULARLY FROM COUNTRIES IN THE ORIENT AND THE MIDDLE EAST. INDUSTRIALISTS GENERALLY EXPECT TO RESUME PRODUCTION AT ITS PRESENT LEVEL FOLLOWING THE JULY AND AUGUST SLACK PERIOD, BUT IN GENERAL THEY REFUSED TO MAKE ANY PROJECTIONS FOR THE FINAL QUARTER OF THE YEAR.

THE SURVEY MADE THE FOLLOWING POINTS REGARDING SPECIFIC SECTORS:
INTERMEDIATE GOODS -- THE STRONG SEASONAL REVIVAL WAS VERY UNEQUAL ACCORDING TO PRODUCT. DESPITE ABUNDANT DELIVERIES, THE LEVEL OF STOCKS REMAINED UNCLASSIFIED

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HIGHER THAN NORMAL.
CAPITAL GOODS -- EXPORTS WERE VERY IMPORTANT IN CONTRAST TO DULL DOMESTIC DEMAND. NO MAJOR INCREASE IN PRODUCTION WAS EXPECTED FROM NOW TO THE END OF THE YEAR. A STRENGTHENING IN DEMAND IN THE FALL WOULD PERMIT A REDUCTION IN STOCKS, BUT IT WOULD HAVE SCARCELY ANY EFFECT ON PRODUCTION BEFORE 1978.
CONSUMPTION GOODS -- DIVERSE FACTORS -- BAD WEATHER CONDITIONS, LOW PROPENSITY ON THE PART OF HOUSEHOLDS TO SPEND -- WERE CONSIDERED INSTRUMENTAL IN LIMITING THE HABITUAL INCREASE IN DEMAND DURING THIS PERIOD OF THE YEAR. THE SITUATION VARIED ACCORDING TO PRODUCT. AUTOMOBILE CONSTRUCTION REMAINED RELATIVELY FIRM, DESPITE THE CONFIRMATION OF A CERTAIN WEAKENING IN DOMESTIC DEMAND.
3. BARRE: ACTIVITY WILL BE SUPPORTED IN SEPTEMBER IN A JULY 8 MEETING BETWEEN P.M. BARRE AND FRANCOIS CEYRAC, PRESIDENT OF THE PATRONAT, BARRE PROMISED THAT ACTIVITY WOULD BE SUPPORTED IN SEPTEMBER. HE DID NOT SPECIFY WHICH MEASURES WOULD BE TAKEN, AND HE CAREFULLY AVOIDED GIVING ANY IMPRESSION OF A GLOBAL RELAUNCH OF THE ECONOMY. HE ALSO CNFIRMED

THAT A SLIGHT INCREASE IN PURCHASING POWER WOULD
BE ACCORDED AT THE END OF THE YEAR THROUGH AN
INCREASE IN THE MINIMUM WAGE AND CERTAIN SOCIAL
PAYMENTS.

4. SERISETTE WILL NOT BE IMPLEMENTED IN JULY
DURING THE SAME MEETING, BARRE PROMISED THAT THE
"SERISETTE" (ANTI-INFLATION TAX) WOULD NOT BE IMPLEMENTED IN
JULY AS HAD BEEN FEARED. THE SERISETTE PROVIDES THAT COMPANIES
WILL BE SUBJECT TO AN ADDITIONAL TAX WHEN THE PRICE INDEX ON
MANUFACTURED PRODUCTS INCREASES BY MORE THAN 1.8
PERCENT IN FIVE CONSECUTIVE MONTHS. IN THE FOUR
MONTHS PRECEDING JUNE, THIS INDEX HAD ALREADY
INCREASED BY 1.7 PERCENT. ALTHOUGH THE SERISETTE
WAS VOTED INTO LAW TWO YEARS AGO, THE GOF HAS YET
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TO APPLY IT DUE TO THE ECONOMIC SITUATION.

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5. 19.7 PERCENT INCREASE IN INVESTMENTS OF NATIONAL COMPANIES IN 1978
THE COUNCIL OF THE ECONOMIC AND SOCIAL DEVELOPMENT FUND (FDES) HAS APPROVED A 19.7 PERCENT INCREASE IN THE INVESTMENTS OF NATIONAL COMPANIES IN 1978. INVESTMENTS BY THE NATIONALIZED SECTOR WILL BE FF 32,164 MILLION IN 1978, COMPARED TO FF 26,868 MILLION IN 1977. THE ENERGY SECTOR WILL SPEND FF 21,709 MILLION (22.1 PERCENT INCREASE) DIVIDED AMONG THE FOLLOWING INDUSTRIES: ELECTRICITE DE FRANCE, FF 17,302 MILLION (PLUS 22 PERCENT); GAZ DE FRANCE, FF 2,883 MILLION (PLUS 32.4 PERCENT); CHARBONNAGES (COALMINING),
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FF 895 MILLION (PLUS 16.4 PERCENT); AND COMPANIE NATIONALE DU RHONE, FF 629 MILLION (-4.3 PERCENT). THE TRANSPORT SECTOR WILL SPEND FF 10,453 MILLION (PLUS 15.1 PERCENT) AS FOLLOWS : SNCF (RAILROAD), FF 6,685 MILLION (PLUS 19.7 PERCENT); RAPT (URBAN TRANSPORTATION) FF 2,250 MILLION (PLUS 5.1 PERCENT); AIR FRANCE , FF 1,259 MILLION (PLUS 6.7 PERCENT); AND AEROPORT DE PARIS, FF 258 MILLION (PLUS 44.1 PERCENT). THE LOANS OF THE FDS WILL INCREASE FROM FF 3,700 MILLION IN 1977 TO FF 4,165 MILLION IN 1978 (PLUS 12.6 PERCENT). NATIONAL COMPANIES WILL RECEIVE FF 1,690 MILLION (-0.6 PERCENT) WHILE THE PRIVATE SECTOR WILL RECEIVE FF 2,465 MILLION (PLUS 23.3 PERCENT).
6. CHANGES IN REGULATIONS GOVERNING FOREIGN INVESTMENT
THE MINISTRY OF FINANCE PUBLISHED IN THE JOURNAL OFFICIEL OF JULY 17 AND ELEVEN-PAGE CIRCULAR LETTER TO AUTHORIZED FINANCIAL INTERMEDIARIES (PRINCIPALLY BANKS), DATED JUNE 28, 1977 WHICH SUMMARIZES AND REITERATES THE CONDITIONS AND PROCEDURES WHICH APPLY TO INVESTMENTS OF FRENCH RESIDENTS ABROAD AND OF FOREIGN INVESTMENT IN FRANCE.
EXCEPT FOR MINOR ALTERATIONS TO SOME INTERNAL PROCEDURES, THE ONLY IMPORTANT CHANGES TO PREVIOUSLY EXISTING RULES AND REGULATIONS ARE THE FOLLOWING:
1) THE CEILING FOR FOREIGN INVESTMENTS IN FRANCE SUBJECT TO A PRELIMINARY AUTHORIZATION OF THE FRENCH TREASURY WAS RAISED FROM 2 TO 3 MILLION FRANCS.
2) THIS CEILING REMAINS F3 MILLION FOR FRENCH INVESTMENT ABROAD. THE ACQUISITION OF AGRICULTURAL LAND AND/OR PROPERTY IS NOW SUBJECT

TO PRELIMINARY AUTHORIZATION OF THE FRENCH
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TREASURY, WHATEVER THE AMOUNT. WE HAVE BEEN INFORMED INFORMALLY THAT ALL INVESTMENT IN AGRICULTURAL OPERATIONS WILL BE CAREFULLY SCREENED, IMPLYING APPROVAL WILL BE DIFFICULT.
COMMENT: THIS PLUGS A LOOPHOLE, AS A NUMBER OF CAPITAL TRANSFERS HAVE BEEN DISGUISED AS PARTICIPATION IN AGRICULTURAL ACTIVITIES ABROAD, OR ACQUISITION OF AGRICULTURAL REAL ESTATE.

7. INSEE ESTIMATE OF 1977 CAPITAL GOODS EXPENDITURE REVISED UPWARD
THE MOST RECENT INSEE SURVEY OF EQUIPMENT INVESTMENT IN INDUSTRY HAS REVISED SLIGHTLY UPWARD THE ESTIMATE OF INVESTMENT EXPENDITURE TO BE UNDERTAKEN IN 1977 (SEE PARIS 12323). INDUSTRIALISTS INDICATE THAT THEIR BUDGETS CORRESPOND TO AN INCREASE OF 13-14 PERCENT IN NOMINAL INVESTMENT. TAKING ACCOUNT OF THE INCREASE IN THE PRICES OF CAPITAL GOODS (ESTIMATED TO BE 8.5 PERCENT), THE GROWTH IN THE VOLUME OF PRODUCTIVE INVESTMENT IN PRIVATE INDUSTRY IN 1977 MAY BE IN THE ORDER OF 4-5 PERCENT. THE LARGEST INCREASES IN INVESTMENT ARE EXPECTED IN THE AUTOMOBILE, GLASS AND PETROLEUM SECTORS, WHILE DECREASES IN INVESTMENT ARE LIKELY IN SHIP AND AERONAUTIC CONSTRUCTION AND METAL PRODUCTION.

8. RENT CONTROLS EXTENDED TO JULY 1978
THE GOF HAS DECIDED THAT THE CONTROL ON RENT INCREASES WILL BE EXTENDED TO JULY 1978. THE BARRE PLAN PROVIDED THAT RENTS COULD NOT INCREASE BY MORE THAN 6.5 PERCENT IN THIS CALENDAR YEAR. THE NEW DECISION PROVIDES THAT RENTS WHICH ARE SUBJECT TO THE RENT CONTROL LAW OF 1948, A SMALL PROPORTION OF TOTAL RENTAL HOUSING, CANNOT BE HIGHER THAN 6.5 PERCENT FROM NOW TO JULY 1, 1978, WHILE THE INCREASE IN OTHER RENTS IS TO BE LIMITED TO 85 PERCENT OF THE INCREASE IN THE COST OF CONSTRUCTION INDEX.

9. NEW MEASURES TO AID EXPORTS OF SERVICES
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IN ADDITION TO THE STEPS THE GOF HAS TAKEN TO AID MERCHANDISE EXPORTS, IT HAS ALSO ANNOUNCED MEASURES AIMED AT REDUCING ITS EXTERNAL DEFICITS IN THE TRANSPORTATION AND INSURANCE SECTORS. EXPORT-RELATED

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OPERATIONS IN THESE SECTORS WILL BE ACCORDED

BENEFITS CURRENTLY GRANTED TO MERCHANDISE

EXPORTS SUCH AS FINANCING AND GUARANTEES FOR

INVESTMENT ABROAD, CREDITS FOR PREFINANCING

OF SURVEY STUDIES, FINANCING AND

GUARANTEES OF EXPORT CONTRACTS, AND GUARANTEES

OF ECONOMIC RISK. EXPORT INSURANCE OPERATIONS

WILL BE EXONERATED FROM CERTAIN TAXES AND WILL BE REFUNDED THE VALUE

ADDED TAX. THE MINISTER OF FOREIGN TRADE PLANS TO CONDUCT AN

INFORMATION CAMPAIGN THIS FALL TO PROMOTE EXPORTS OF SERVICES

AND TO INTEREST INDUSTRIALISTS AND IMPORTERS IN

SELLING CIF AND BUYING FOB.

10. LARGE FOREIGN TRADE DEFICIT IN JUNE DUE MAINLY

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TO TEMPORARY FACTORS

SEVERAL TEMPORARY FACTORS HELPED TO EXPLAIN THE LARGE INCREASE IN THE TRADE DEFICIT FROM FF 441 MILLION IN MAY TO FF 2,321 MILLION IN JUNE ON A SEASONALLY ADJUSTED BASIS (FF 576 MILLION ON AN UNADJUSTED BASIS). ALTHOUGH EXPORTS INCREASED BY 2.7 PERCENT FROM FF 25,627 MILLION TO FF 26,307 MILLION, IMPORTS INCREASED BY 9.8 PERCENT, FROM FF 26,068 MILLION TO FF 28,628 MILLION. THE TEMPORARY FACTORS INCLUDED: AN INCREASE OF FF ONE BILLION IN THE PURCHASES OF ENERGY PRODUCTS IN ANTICIPATION OF AN INCREASE IN PETROLEUM PRICES ON JULY 1, AND AN INCREASE OF FF 700 MILLION IN THE IMPORTS OF AGRICULTURAL PRODUCTS. THIS WAS IN PART DUE TO THE EFFECTS OF THE FREEZE THIS SPRING, BUT IT ALSO INCLUDED AN INCREASE OF FF 250 MILLION IN COFFEE PURCHASES, DUE TO THE DESIRE TO RESTOCK, NOW THAT COFFEE PRICES HAVE STARTED TO FALL. THE JUNE DEFICIT BRINGS THE TOTAL TRADE DEFICIT FOR THE FIRST HALF OF THE YEAR TO FF 8.3 BILLION.

11. PRICES OF IMPORTED PRIMARY MATERIALS FALL AGAIN IN JUNE THE INTERNATIONAL PRICES OF BOTH AGRICULTURAL AND INDUSTRIAL PRIMARY MATERIALS IMPORTED BY FRANCE REGISTERED A FURTHER DECREASE IN JUNE. THE PRICES OF IMPORTED AGRICULTURAL PRIMARY MATERIALS FELL BY 13.5 PERCENT IN JUNE BUT WERE 58.9 PERCENT HIGHER THAN IN JUNE A YEAR AGO. THE PRICES OF IMPORTED INDUSTRIAL PRIMARY MATERIALS FELL BY 5.7 PERCENT AND WERE 5.2 PERCENT LOWER THAN 12 MONTHS AGO. FOR IMPORTED PRIMARY MATERIALS AS A WHOLE, INTERNATIONAL PRICES FELL BY 10.5 PERCENT IN JUNE AND WERE 15.3 PERCENT HIGHER THAN A YEAR AGO. EXPRESSED IN FRANCS, PRICES DECREASED BY 10.1 PERCENT IN JUNE

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AND WERE 30.7 PERCENT HIGHER THAN 12 MONTHS AGO.

12. FOREIGN COMPETITION TO FRENCH PRODUCTS CONTINUES VERY STIFF INSEE'S SEMI-ANNUAL SURVEY OF FOREIGN COMPETITION AND EXPORTS INDICATES THAT ALTHOUGH FOREIGN COMPETITION HAD STABILIZED IN MARKETS ABROAD AND HAD SLIGHTLY DECREASED ON THE DOMESTIC MARKET, FRENCH INDUSTRIALISTS STILL THOUGHT THAT IT WAS VERY STIFF IN MAY AND THAT IT WAS MUCH STRONGER, PARTICULARLY ON THE DOMESTIC MARKET, THAN IT HAD BEEN A YEAR AGO. THE SELLING PRICES OF FRENCH INDUSTRIALISTS STILL REMAINED ABOVE THOSE OF THEIR FOREIGN COMPETITORS, BUT THE GAP BETWEEN THE TWO PRICES HAS DECLINED, ESPECIALLY ON EXTERNAL MARKETS. PROFIT MARGINS ON SALES ABROAD HAVE IMPROVED AND WERE HIGHER THAN IN 1975 OR 1976. ALTHOUGH IT WAS STILL MORE PROFITABLE TO SELL AT HOME THAN ABROAD,

THE GAP BETWEEN THE RESPECTIVE PROFIT MARGINS HAD DIMINISHED.
 13. FURTHER DECLINE IN INDUSTRIAL PRODUCTION IN MAY THE MONTHLY INDEX OF INDUSTRIAL PRODUCTION REGISTERED ANOTHER FALL IN MAY, FROM 127 IN APRIL TO 125. ACCORDING TO INSEE, THE MAY RESULTS WERE SLIGHTLY UNDERESTIMATED SINCE THE DAY FOLLOWING ASCENSION THURSDAY (MAY 19) WAS COUNTED AS A WORKDAY EVEN THOUGH MANY COMPANIES GAVE THE DAY OFF. ON THE BASIS OF A THREE MONTH MOVING AVERAGE, INDUSTRIAL PRODUCTION FELL BY 0.8 PERCENT WITH RESPECT TO THE THREE MONTH PERIOD ENDING IN APRIL AND INCREASED BY ONLY 1.6 PERCENT WITH RESPECT TO THE THREE MONTH PERIOD ENDING IN DECEMBER.

INDUSTRIAL PRODUCTION INDEX

(THREE MONTH MOVING AVERAGE, SEASONALLY ADJUSTED, 1970
 EQUALS 100)

	JAN.	FEB.	MAR.	APR.	MAY
TOTAL (EXCLUDING BUILDING AND PUBLIC WORKS)	127	127	129	128	127
ENERGY	127	127	125	124	121
INTERMEDIATE GOODS	117	117	119	119	117
CONSUMER GOODS	140	139	140	140	139
CAPITAL GOODS	143	144	150	150	150

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14. ANOTHER LARGE INCREASE IN UNEMPLOYMENT RATE IN JUNE
 THE UNEMPLOYMENT SITUATION WHICH APPEARED BAD IN MAY
 BECAME EVEN WORSE IN JUNE. WITH THE APPEARANCE ON
 THE LABOR MARKET OF 52,400 SCHOOL-LEAVERS, THE
 SEASONALLY ADJUSTED NUMBER OF UNEMPLOYED SHOT UP BY

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4.9 PERCENT TO 1,252,000. THERE WAS A SLIGHT DECREASE
IN UNADJUSTED UNEMPLOYMENT FROM 976,100 TO 967,700.
UNFILLED JOB OFFERS FELL BY 3.6 PERCENT TO
93,100. WE ESTIMATE SEASONALLY ADJUSTED UNEMPLOYMENT,
WHICH WAS 4.6 PERCENT OF THE LABOR FORCE IN JANUARY,
TO BE NOW 5.6 PERCENT. (SEE PARIS A-148 FOR METHODOLOGY).
THE GOF IS CLEARLY KEEPING ITS FINGERS CROSSED THAT
THE JULY RESULTS WILL PROVE TO BE MUCH BETTER, NOW
THAT THE AIDS TO ENCOURAGE EMPLOYMENT OF THE YOUNG
HAVE COME INTO EFFECT. IT HAS ATTRIBUTED PART OF
THE BAD RESULTS FOR MAY AND JUNE AS BEING DUE TO
COMPANIES HOLDING BACK ON HIRINGS IN ORDER TO BE
ABLE TO BENEFIT FROM THESE NEW MEASURES.
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15. MONEY SUPPLY GREW BY 1.1 PERCENT IN APRIL
ACCORDING TO PRELIMINARY PRESS REPORTS, THE UNADJUSTED
MONEY SUPPLY (M2) WAS FF 889.1 BILLION IN APRIL, A
1.1 PERCENT INCREASE OVER MARCH. M1 WAS FF 453.1
BILLION (1.3 PERCENT INCREASE) WHILE NEAR MONEY WAS
FF 436.0 BILLION (0.8 PERCENT INCREASE). NET
FOREIGN EXCHANGE RESERVES STOOD AT FF 43.8 BILLION
(1.4 PERCENT INCREASE); CLAIMS ON THE PUBLIC SECTOR,
FF 113.4 BILLION (2.9 PERCENT DECREASE); AND CLAIMS ON
THE PRIVATE SECTOR, FF 782.1 BILLION (0.9 PERCENT INCREASE).
DATA ON SEASONALLY ADJUSTED MONEY SUPPLY IS NOT YET
COMPLETE, BUT PRESS REPPORTS M2 GREW BY 1.1 PERCENT, M1
BY 0.8 PERCENT, AND QUASI-MONEY BY 0.5 PERCENT.

16. NEW TRADE ORGANIZATION WILL FOCUS ON NEAR AND MIDDLE EAST
THE CAISSE CENTRAL DES BANQUES POPULAIRES HAS JUST
CREATED A NEW COMPANY OF INTERNATIONAL COMMERCE CALLED
PRAMEX (SOCIETE FRANCAISES DE PROMOTION ET D'ANIMATION
DES MARCHES EXTERIEURS). THIS COMPANY, WHICH WILL AT
FIRST BE ORIENTED TOWARDS OPERATIONS IN THE NEAR AND
MIDDLE EAST, WILL SERVE PRIMARILY SMALL AND MIDDLE SIZE
COMPANIES. ITS OBJECTIVE IS TO PROMOTE INTERNATIONAL

TRADE AND TO REALIZE ALL RELATED COMMERCIAL OPERATIONS,
PARTICULARLY COMMISSIONS AND BROKERAGE.
OTHER REPORTS SUBMITTED DURING THE PERIOD
TELEGRAMS PARIS
20848 WORLD BANK/IMF PROPOSALS TO INCREASE EXECUTIVE
DIRECTORS AND ALTERNATES SALARIES
20743 VISIT BY NATIONAL BANK EXAMINERS
20570 FINANCIAL ASSISTANCE FOR PORTUGAL
20569 UNCTAD AND "DEBT"
20121 FRENCH EXCHANGE MARKET, JULY 11
19931 GASOLINE TAX INFORMATION

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AIRGRAMS PARIS
A-271 SUPPLEMENTAL BUDGET FOR 1977
A-267 FRENCH RESERVES
A-265 FRENCH FOREIGN EXCHANGE HOLDINGS
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